

**TENNESSEE GENERAL ASSEMBLY
FISCAL REVIEW COMMITTEE**



FISCAL NOTE

HB 1611 - SB 1383

March 10, 2011

SUMMARY OF BILL: Exempts over-the-counter drugs for human use dispensed without prescriptions from state and local sales tax.

ESTIMATED FISCAL IMPACT:

Decrease State Revenue – Net Impact - \$21,878,600

Decrease Local Revenue – Net Impact - \$9,317,900

Assumptions:

- According to the Department of Revenue, and based on Consumer Healthcare Products Association data, the total retail value of over-the-counter drugs sold in the United States without prescriptions during 2009 was approximately \$16.9 billion. This number is assumed to have remained constant since 2009.
- According to the U.S. Census, the estimated population in Tennessee during 2009 was 6,296,254; the estimated population for the United States is currently 308,745,538. Therefore, the population in Tennessee is approximately 2.04 percent of the national population (6,296,254 / 308,745,538).
- Tennessee accounts for 2.04 percent of the national market for over-the-counter drugs sold without prescriptions, the equivalent of \$344,760,000 in statewide sales (\$16.9 billion x 2.04%).
- A state sales tax rate of 7.0 percent and a local option sales tax rate of 2.5 percent.
- The decrease in state sales tax revenue will be \$24,133,200 (\$344,760,000 x 7.0%).
- The decrease in local option sales tax revenue will be \$8,619,000 (\$344,760,000 x 2.5%).
- Total tax savings to consumers will be \$32,752,200 (\$24,133,200 + \$8,619,000).
- Fifty percent of tax savings will be spent in the economy on other sales-taxable goods and services.
- Pursuant to Tenn. Code Ann. § 67-6-103(a)(3)(A), local governments receive 4.5925 percent of all state sales tax revenue as state-shared sales tax revenue.
- The net decrease in state revenue will be \$21,878,556 [\$24,133,200 – (\$24,133,200 x 4.5925%) - (\$32,752,200 x 50.0% x 7.0%)].

- The net decrease in local government revenue will be \$9,317,915 [$\$8,619,000 + (\$24,133,200 \times 4.5925\%) - (\$32,752,200 \times 50.0\% \times 2.5\%)$].

CERTIFICATION:

The information contained herein is true and correct to the best of my knowledge.



James W. White, Executive Director

/rnc